UNITED STATES SECURITIES AND EXCHANGE CO

Washington, D.C. 20549

ANNUAL AUDITED REPORT **FORM X-17A-5**

PART III



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Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING	01/01/02 MM/DD/YY	AND ENDING	12/31 MM/DD/	
A. RE	GISTRANT IDENTI	FICATION		
NAME OF BROKER DEALER:		<u> </u>		
Watermark Securities, Inc			OFFICIAL USE	EONLY
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)			FIRM ID. NO.	
900 Third Avenue		'		
	(No. and Street)			
New York	New York		10022	
(City)	(State)	,	(Zip Code)	
B. AC	COUNTANT IDENT	IFICATION	(Area Code — Telep	ohone No.)
INDEPENDENT PUBLIC ACCOUNTANT whose	opinion is contained in this Re	eport*		
	BDO Seidman, L	LP		
(Nan	ne — if individual, state last, fi	rst, middle name)		
330 Madison Avenue	New York		NY	10017
(Address)	(City)	((State)	(Zip Code)
CHECK ONE: Certified Public Accountant Public Accountant Accountant not in residence in United St	ates or any of its possession FOR OFFICIAL USE ON		PROCES MAR 1 1 THOMS FINANCE	2003 SON
·			1 114/440	7 17 TRM

^{*}Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

staten ,2002 princi	arc Baltuch, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial nent and supporting schedules pertaining to the firm of Watermark Securities, Inc, as of December 31, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, pal officer or director has any proprietary interest in any account classified solely as that of a customer, t as follows:				
	No Exceptions				
	MOTH IS ALL COMINS Notary Public, Washe of New York No. 02:425172823				
	Gualified in Plante County Commission the Last May 27, 2005 Signature				
	President President				
- <i>L</i> .,	Title				
	Notary Public				
. mi t					
	port** contains (check all applicable boxes):				
	Facing Page.				
⊠ (b					
_ `	Statement of Income (Loss).				
) Statement of Cash Flows.) Statement of Changes in Financial Condition.				
= :					
(f) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital. (g) Statement of Changes in Liabilities Subordinated to Claims of Creditors.					
	Computation of Net Capital.				
☐ (i					
= ::	(j) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.				
(k	A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.				
.⊠ (r	n) An Oath or Affirmation.				
(r	A copy of the SIPC Supplemental Report.				
□ (c	A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.				

^{**} For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



Statement of Financial Condition

December 31, 2002

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BDO Seidman, LLPAccountants and Consultants

330 Madison Avenue New York, New York 10017 Telephone: (212) 885-8000 Fax: (212) 697-1299

Independent Auditors' Report

Board of Directors Watermark Securities, Inc. New York, New York

We have audited the accompanying statement of financial condition of Watermark Securities, Inc. ("Company") as of December 31, 2002. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Watermark Securities, Inc. at December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

January 25, 2003

BDO Seidman, LLP

Statement of Financial Condition

December 31, 2002	
Assets	
Cash and cash equivalents	\$ 585,518
Deposit with clearing broker (Note 1)	59,903
Receivable from clearing broker (Note 1)	757,311
Investments in securities, at fair value (cost - \$72,100) (Note 2)	49,000
Prepaid expenses and other	48,415
Property and equipment (net of accumulated depreciation of \$6,493)	52,766
	\$1,552,913
Liabilities and Stockholders' Equity	
Liabilities:	
Payable to brokers and dealers	\$ 40,841
Accrued expenses and other liabilities (Note 3)	89,827
Total liabilities	130,668
Stockholders' equity (Note 5)	1,422,245
	\$1,552,913

See accompanying summary of business and significant accounting policies and notes to statement of financial condition.

Summary of Business and Significant Accounting Policies

Business

Watermark Securities, Inc. ("Company") is a broker-dealer providing services for affiliated institutional clients, and clears all such transactions through another broker-dealer pursuant to a clearance agreement on a fully disclosed basis. Accordingly, the Company is exempt from the provisions of the Securities and Exchange Commission ("SEC") Rule 15c3-3.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds.

Securities Valuation

For securities (long or short) traded on a national market, estimated values are determined at the last reported sales price on the valuation date. For other securities, estimated values are determined at the last reported "bid" price if held long or "ask" price if held short.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets which range from three to five years.

Income Taxes

The Company has elected S Corporation status for income tax purposes and, as such, income flows through to the stockholders' individual income tax returns. As a result, the Company is not liable for Federal income taxes and a portion of state income taxes.

Summary of Business and Significant Accounting Policies

Use of Estimates

The preparation of a statement of financial condition in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

Notes to Statement of Financial Condition

1. Deposit and Receivable from Clearing Broker

The Company is required to maintain a collateral account with its clearing broker with a minimum market value of \$50,000. United States treasury bills with a market value of \$59,903 were held in this account at December 31, 2002. Receivable from broker represents the net commissions due from this broker. Accordingly, the Company is subject to credit risk relating to this broker's ability to pay the balance in the account or deliver the securities on deposit.

2. Investments in Securities, at Fair Value

Investments in securities, at fair value, consists of warrants and common stock purchased as a part of one company's private placement.

3. Related Party Transactions

An affiliate provides certain administrative, operational, and other services whose costs are allocated to the Company. In addition, this affiliate pays certain of the Company's direct obligations. Included in accrued expenses and other liabilities is \$52,327 for 2002 services.

4. Employee Benefit Plan

The Company participates in a profit-sharing plan covering substantially all employees, which provides for annual contributions as determined by the Company.

5. Net Capital Requirements

Under the "Uniform Net Capital Rule" of the SEC, the Company is required to maintain net capital, as defined, equivalent to the greater of \$5,000 or 6-2/3% of aggregate indebtedness, as defined, and requires that the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 15 to 1. While net capital and aggregate indebtedness may change from day to day, at December 31, 2002, the Company's net capital of \$1,261,023 exceeded minimum requirements by \$1,252,312 and the ratio of aggregate indebtedness to net capital was .10 to 1.

Notes to Statement of Financial Condition

6. Off-Balance Sheet Risk and Concentration of Credit Risk

In the normal course of business, the Company facilitates the execution of securities transactions on behalf of customers as an agent. If the agency transactions do not settle because of failure to perform by either the customer or the counterparty, the Company may be obligated to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the securities differs from the contract amount.

The Company does not anticipate nonperformance by customers or counterparties in the above situation. The Company's policy is to monitor its market exposure and counterparty risk. In addition, the Company has a policy of reviewing the credit standing of each counterparty and customer with which it conducts business.

7. Subsequent Event

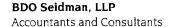
On January 15, 2003, the Company's Board of Directors declared a dividend payable to stockholders in the amount of \$481,950.

Independent Auditors' Report on Internal Control Required by Securities and Exchange Commission Rule 17a-5

Year Ended December 31, 2002

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330 Madison Avenue New York, New York 10017 Telephone: (212) 885-8000 Fax: (212) 697-1299

Independent Auditors' Report on Internal Control Required by Securities and Exchange Commission Rule 17a-5

Board of Directors Watermark Securities, Inc. New York, New York

In planning and performing our audit of the financial statements and supplemental schedule of Watermark Securities, Inc. ("Company") for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

- 1. Making quarterly securities examinations, counts, verifications, and comparisons.
- 2. Recordation of differences required by rule 17a-13.
- 3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally



accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the N.A.S.D. Regulation, Inc. and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Certified Public Accountants

New York, New York

January 25, 2003